



Foreword

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Cash on the table is the latest in a series of working capital management-focused studies based on Ernst & Young research.

Consumer products (CP) companies, up until now, have made important strides in improving working capital management. But analysis shows that the industry still has considerably more to do before achieving an optimum allocation. Given the challenges facing the industry, few firms can afford overlooking this hidden opportunity.



Key findings

Overall

- ▶ In 2010 compared with 2009, CP companies reported further progress in reducing levels of working capital (WC), with each segment showing better results.
- ▶ For this industry, these latest findings confirm the positive trend in WC performance seen in prior years.
- ▶ Yet we believe that there is still room for improvement. A high-level benchmarking analysis (see methodology, p.14) suggests that up to US\$33 billion is still unnecessarily tied up in the WC of the largest 20 CP companies (by sales), equating to 5.3% of sales.
- ▶ Leading companies will be those that take a structured “root and branch” approach to improving WC by targeting all the key operational levers and having a robust supporting infrastructure, including focused metrics, aligned incentives and strong risk management policies in place. They will also be those who embrace innovative and structural solutions such as applying lean manufacturing and supply chain initiatives, true collaboration with retailers, leveraging and centralizing procurement and elements of the order-to-cash function, and considering fresh financing initiatives.
- ▶ This also requires taking an approach that balances cash, cost and service levels, and therefore a culture that engages all functions (sales, procurement and not just finance) in ensuring the cash lever is included in business decisions.

Brewing

- ▶ Brewing saw a further improvement in C2C performance in 2010 compared with 2009, with a drop of 7 days to reach just 5 days.
- ▶ Of the three CP sub-segments analyzed, brewing has reported the biggest improvement in WC levels since 2002 (C2C down 88%, or 35 days), driven by progress in both receivables and payables.
- ▶ Progress has been steady over the years, with an acceleration since 2005.
- ▶ Industry consolidation may have played a significant part in driving the improvement in WC, providing brewers with the opportunity to achieve significant cash and cost savings by leveraging relationships with customers and suppliers and by increasing supply chain efficiencies.
- ▶ Among CP segments, brewing exhibits by far the lowest level of WC (C2C), with a significantly negative differential between receivables and payables cycles (DSO-DPO).

¹C2C (cash-to-cash) = DSO plus DIO minus DPO (expressed as a number of days of sales, unless stated otherwise).

For a more detailed explanation of this and other metrics in the study, see the glossary, page 15.

Food and beverage

- ▶ F&B managed to cut WC levels (C2C) by 8% in 2010 compared with 2009, with each WC component contributing to this improvement.
- ▶ Part of last year’s improvement, however, reflects a rebound from the deterioration seen in 2009, which was adversely affected by the global downturn of 2008.
- ▶ Latest findings mean that C2C has fallen by 15% since 2002, primarily the result of higher payables.
- ▶ F&B still carries higher levels of WC than other CP segments.
- ▶ While having improved, the DSO-DPO differential remains positive, suggesting a lack of focus on cash conversion cycle compared with other CP segments.

Household and personal care

- ▶ HPC reported a strong WC showing in 2010 compared with 2009 (C2C down 12%), but entirely due to an increase in payables.
- ▶ These results bring the total reduction in C2C achieved since 2002 to 30%, with the entire gain achieved in the last three years.
- ▶ HPC’s levels of WC sit between brewing and F&B.
- ▶ The DSO-DPO differential improved from a positive 7 days in 2002 to a negative 1 day in 2010.



Introduction

The CP industry is caught in a time of significant change, prompted by shifting demand to private labels and to emerging countries, consolidation in the retail industry, increased competition and more volatile commodity prices. Against this backdrop, CP companies have intensified their focus on cash and cost efficiency and on WC in particular. While significant progress has been achieved in reducing levels of WC, CP companies still have substantial opportunity for improvement in this area.

Most CP companies recognize that there is still significant opportunity for improvement within many areas of WC.

Part I: Working capital challenges

The CP industry as a whole has made significant strides in improving WC performance. In particular, those companies that are proactively focusing on WC management are achieving success. But to sustain such gains and to achieve even more in the way of WC efficiency, businesses must be responsive to an environment of profound change. Any review of recent WC performance must similarly take account of the key challenges facing the industry. These include:

Responding to retail consolidation

CP companies are increasingly dependent on a few key retailers. Consolidation in the retailing industry continues to create more, ever-larger and more sophisticated customers. Larger retailers possess increased buying power. Not only are they resistant to price increases, but they also tend to demand discounts and rebates together with enhanced payment terms and service (often taking them earlier than when making payments for the related services). In addition, by developing their own private label products, these retailers have been eroding the value of the suppliers' brands.

Changes in payment terms policies of the largest retailers have had a significant impact on the CP's industry WC performance, with significant variations over time and by region. For the 13 largest retailers (by sales) in the US and Europe, analysis of their payables performance shows an increase of 8% in DPO (based on cost of sales) between 2002 and 2005, indicating that retailers have been pursuing extended payment terms with their suppliers. Since then, performance has remained almost unchanged. For retailers in the US, performance patterns were similar to the total, while in the UK, DPO dropped slightly in the first period (-2%) before rising significantly more recently (+9%). For retailers in Continental Europe, DPO rose 9% between 2002 and 2005, and then fell back 3% between 2005 and 2010.

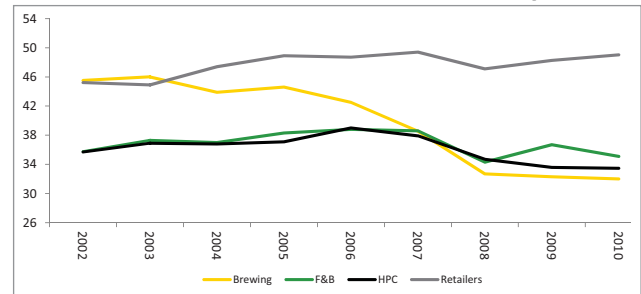
In addition, retailers in general have been trying to operate with lower levels of inventory. DIO (based on COS) of the largest retailers fell by 4% between 2002 and 2005 and then by a further 3% between 2005 and 2010. Performance patterns, however, were varied by region. For retailers in the US, there was an acceleration in the pace of reduction, with DIO down 11% since 2002, including a drop of 9% between 2005 and 2010. By contrast, in the UK, there was a bigger drop in the first period

(-15%) and then a jump in the second period (+21%), indicating a change in strategies with regard to inventory and supply management. For retailers in Continental Europe, performance has remained almost unchanged over the years.

These trends highlight the difficulties facing the CP industry in dealing with increasingly complex supply chains, input cost inflation and more aggressive inventory management by retailers on the back of trends such as more frequent deliveries and greater use of consignment stocks.

Reducing levels of inventories will remain a key focus for the retailing industry, which will further intensify the pressure on the inventory and supply chain performance of the CP industry. Ultimately, what will determine where retailers and manufacturers end up on inventory levels will be the balance between in-stock and service levels on inventory.

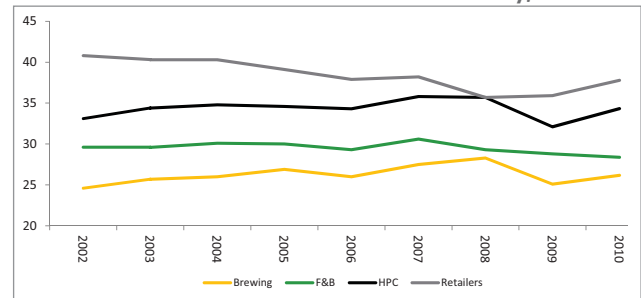
Table 1: DPO retailers versus DSO CP industry, 2002-10*



*CP industry represented by the 20 largest branded companies (by sales), headquartered in the US and Europe.

Source: Ernst & Young analysis, based on publicly available financial statements

Table 2: DIO retailers versus DIO CP industry, 2002-10



Source: Ernst & Young analysis, based on publicly available financial statements

Responding to heightened commodity risk

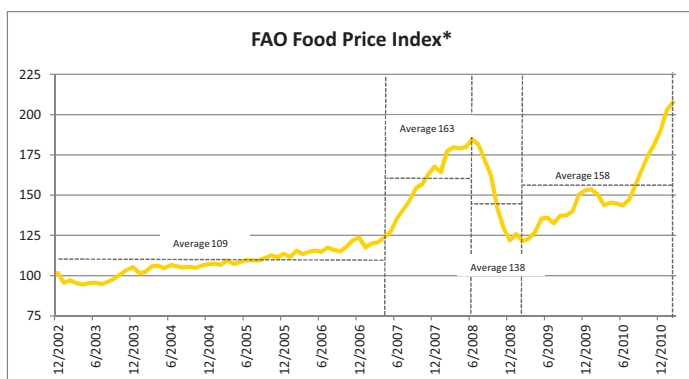
Rising input costs are exacting a material impact on the WC performance of the CP industry affecting not only inventory, but also payables and receivables. This is especially evident among F&B and brewing.

Commodity prices rebounded in 2009 following a sharp decline in the second half of 2008, but the average for the year was still down 18% compared with the previous year. In 2010, cost inflation returned, with prices approaching and, in some cases, exceeding the peak levels experienced by the industry in 2007-2008. Food Price Index rose by 17% in 2010 compared with 2009, and by 24% in December 2010 compared with the same month of 2009.

To some extent, CP companies have been able to pass such costs along to customers. In some cases, the impact of increased volatility and generally higher input costs has been smoothed by hedging strategies. Similarly, most have taken steps to adjust to higher prices by pursuing increased cost efficiencies across the supply chain. Some have also managed to cut cost inputs, for example, substituting palm oil for olive oil, or redesigning products to require less packaging.

Another concern for the industry today is the number of customers who, amid the downturn, have “traded down” to less expensive lines and private label products. Today there is evidence that some consumers are returning to more highly priced branded products. Long term, the CP industry needs to do more to instill customer loyalty through marketing and product innovation. But the fear remains that consumer perceptions of value will remain fundamentally changed.

Table 3: Changes in commodity prices, 2002-10



*Average of 5 commodity group price indices

Source: Food and Agriculture Organization, United Nations

Managing opportunities and risks of global supply chains

With increasing globalization of supply chains, CP companies are afforded opportunities to optimize costs. This trend, however, has also added significant degree of complexity and risk: the longer and the more interconnected the supply chain, the greater is its vulnerability to business disruptions. (See sidebar.)

The WC challenges for the industry include deciding on the balance between lean manufacturing and supply chains, lead times, and inventory and service levels.

The challenges of retail consolidation

For a retail customer, the factors that may confer buyer power include its absolute and relative size to that of its supplier, and the existence of alternative sources of supply, such as products from competitors to the supplier and its own label products. There are, however, some factors that may mitigate the retail buying power, such as major brands that are difficult to replace, and the cost of switching supplier.

For the F&B and HPC segments, an already highly concentrated customer base is becoming even more so, with the five largest buyers now accounting for 25% to 30% of total revenues.

For Brewing, on the other hand, the customer base – ranging from wholesalers and distributors to smaller retailers – is more dispersed, with the effect of retail consolidation felt primarily through wholesalers. The main change in fact has been supply consolidation. However, it is interesting to note a shift in consumption patterns, with more consumer opting to buy from a retailer and drink at home. More smoking bans and stepped up enforcement of restrictive drinking laws are also encouraging more at-home consumption. In short, retailers are becoming an increasingly important customer for this segment.

Part II: WC performance across CP segments

WC performance varies widely across CP segments. Part of this is due to varying industry characteristics and dynamics. These include not just the products themselves, but also the country and customer sales mix and manufacturing and distribution strategies deployed for the companies comprising each segment.

Of the three CP sub-segments, brewing exhibits by far the lowest level of C2C (5 days). This is due to a strong performance in payables. The differential between receivables and payables cycles (DSO - DPO) is significantly negative (-21 days). In other words, brewers are able to collect from customers much faster than they pay their suppliers.

HPC carry lower levels of WC (C2C of 28 days) than F&B (34 days), helped by a stronger performance in payables and receivables, partly offset by a weaker performance in inventory. The DSO - DPO differential is negative for HPC (-7 days) and positive for F&B (6 days), suggesting a lack of focus on cash conversion cycle for the latter.

Within each segment, the spread of C2C performance among companies is significantly greater for brewing than for other CP segments. This may be partly explained by differences in how various brewers manage their production and distribution models. For example, US brewers are bound by a three-tier distribution system, while others may operate with or without in-house bottling operations. Note in particular that one brewer exhibits a negative C2C of 22 days, with most countries where the company is selling in negative territory.

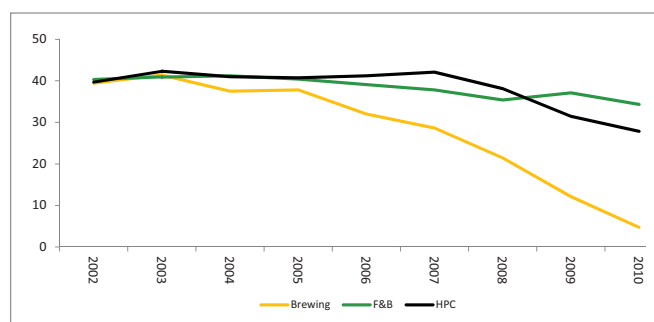
Table 4: Variations in WC performance across CP segments, 2010

Days	Brewing	F&B	HPC
DSO	32.0	35.1	33.5
DIO	26.1	28.4	34.3
DPO	53.4	29.2	40.0
C2C	4.7	34.3	27.8

Source: Ernst & Young analysis, based on publicly available financial statements

The size of the disparities in performance between companies within each segment also points to fundamental differences in management focus on cash and process efficiency.

Table 5: Changes in C2C per segment, 2002-10



Source: Ernst & Young analysis, based on publicly available financial statements

Table 6: Changes in C2C per CP segment, 2002-10

	C2C	
	Change 10/02	Change 10/09
Brewing	-88%	-61%
F&B	-15%	-8%
HPC	-30%	-12%

Source: Ernst & Young analysis, based on publicly available financial statements

Brewing leads the way

Brewing saw a further improvement in C2C performance in 2010 compared with 2009, with a drop of 7 days to reach just 5 days. Progress has been made on the back of higher payables and lower receivables. This brings the total reduction in C2C achieved since 2002 to 35 days, equivalent to a fall of 88%. Progress has been steady over the years, with an acceleration since 2005.

This focus on cash may have been partly driven by the need to address balance sheets, stretched by aggressive acquisition strategies.

Progress since 2002 has come from both payables and receivables, with DPO up 23 days (or 75%) and DSO down 14 days (or 30%). The DSO - DPO differential improved from a positive 15 days in 2002 to a negative 21 days in 2010.

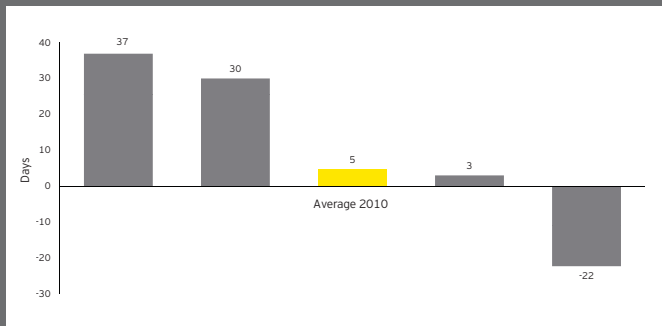
Brewers took advantage of consolidation and increased buying power to improve terms with suppliers (the four brewers analyzed have a combined market share close to 50%). Improved billing and collections were also contributing factors.

Inventory levels, however, were slightly higher, with DIO up 1.6 day (or 6%), adversely affected, to an extent, by a rise in certain commodities prices, such as barley and malt in 2010.

A key feature of the brewing landscape has been the rising proportion of sales coming from emerging countries. In 2002, emerging countries accounted for about a quarter, 23%, of total sales. Today the figure among companies in the study has grown to 40%. Sales to Latin America lead the way at 20%, followed by Central and Eastern Europe (10%), Africa and Middle East (5%) and Asia Pacific (5%).

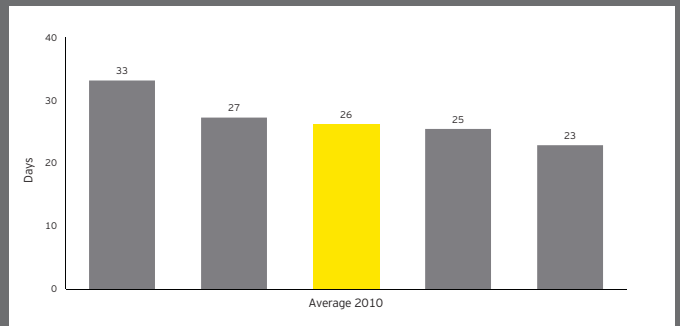
WC performance comparisons per brewer

Table 7: C2C (based on sales)*



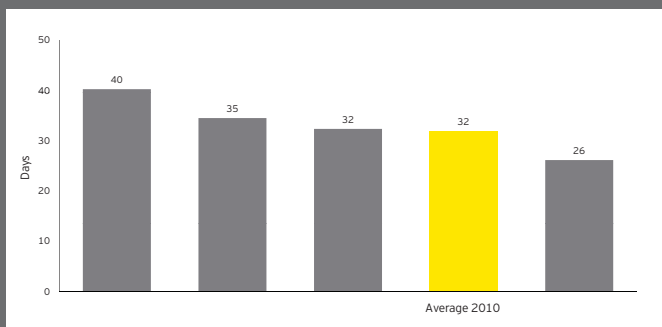
*Average is sales-weighted
Source: annual accounts 2010

Table 9: DIO (based on sales)*



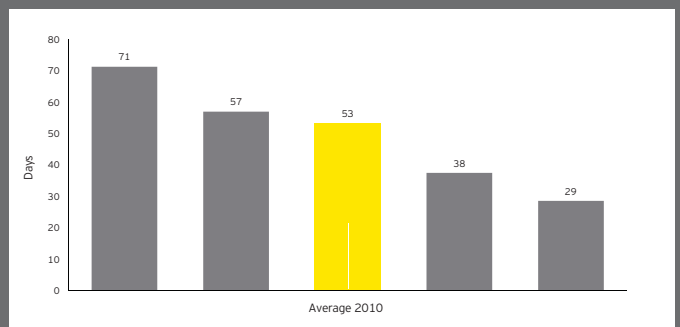
*Average is sales-weighted
Source: annual accounts 2010

Table 8: DSO (based on sales)*



*Average is sales-weighted
Source: annual accounts 2010

Table 10: DPO (based on sales)*



*Average is sales-weighted
Source: annual accounts 2010

Rebound in performance for food and beverage

F&B managed to cut WC levels (C2C) by 8% in 2010 compared with 2009, with each WC component contributing to this improvement. Part of last year's improvement, however, reflects a rebound from the deterioration seen in 2009.

Latest findings mean that C2C fell by 15% since 2002, with six out of nine companies reporting an improvement. Performance was unchanged during the period 2002-2005, and then improved significantly in the ensuing three years (2005-2008), with C2C dropping by 12%. The global downturn had a significant impact on the segment's WC results, with C2C dropping by 6% in 2008 compared with 2007, and then rising by 5% in 2009 compared with 2008.

Payables were the prime driver behind the segment's performance of the last eight years. DPO rose by 16%, owing to stronger focus on procurement and sourcing, as well as to progress made in extending payment terms. Levels of inventories and receivables were slightly down (DSO and DIO down 4% and 2%, respectively).

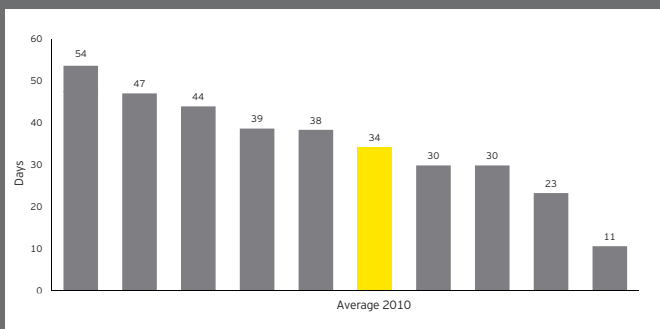
Supply chains today are leaner and more responsive than a few years ago, resulting in greater operating efficiencies and lower levels of inventory. Remarkably, progress was achieved against a backdrop of input cost inflation and more aggressive inventory management by retailers.

The slight improvement in receivables performance since 2002 was driven by the gains achieved in 2010 (DSO down 4%). Pressure on payment terms has been partly mitigated by the positive impact of initiatives regarding billing and collection. Performance was also helped in 2010 by the regulatory decision in France to cap corporate payment terms, although some exceptions are allowed (DPO of European retailers dropped by 3% in 2010 compared with 2009).

It is notable that in 2010 compared with 2009, DIO was marginally down (-1%), while DPO rose further by 3%.

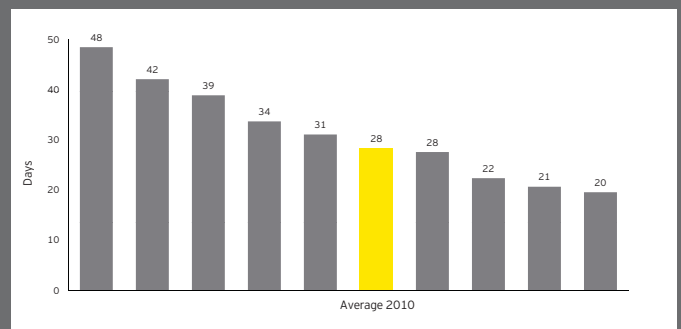
WC performance comparisons per F&B company

Table 11: C2C (based on sales)*



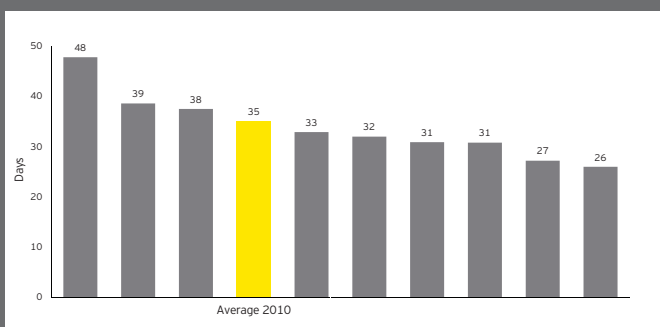
*Average is sales-weighted
Source: annual accounts 2010

Table 13: DIO (based on sales)*



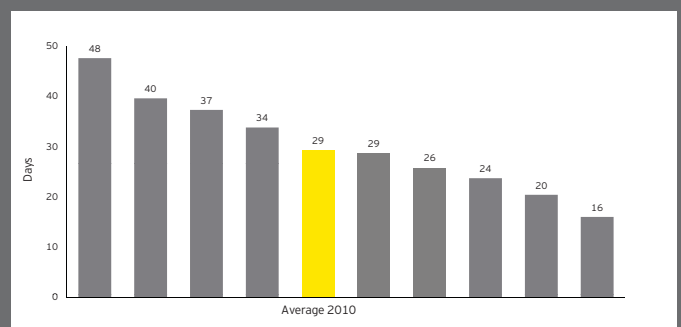
*Average is sales-weighted
Source: annual accounts 2010

Table 12: DSO (based on sales)*



*Average is sales-weighted
Source: annual accounts 2010

Table 14: DPO (based on sales)*



*Average is sales-weighted
Source: annual accounts 2010

Strong results for household and personal care

HPC reported a strong WC showing in 2010 compared with 2009 (C2C down 12%), but entirely driven by an increase in payables (DPO up 17%). Advertising spend rose further and results benefited from the exceptional performance of one particular company. By contrast, there was a notable deterioration in inventory performance (DIO up 7%), adversely affected by higher input costs, while receivables performance remained unchanged.

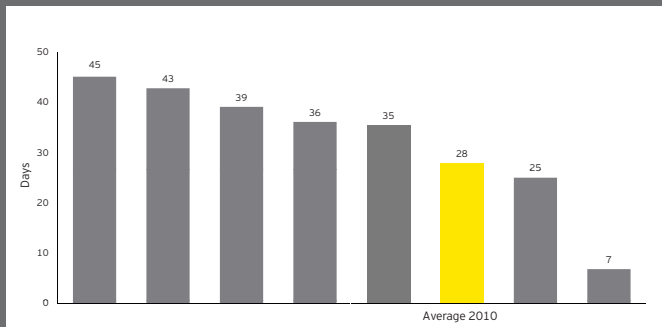
These results bring the total reduction achieved since 2002 to 30% (equivalent to a fall of 12 days), with the entire gain achieved in the last three years. Each company but one managed to improve performance.

Payables and, to a lesser extent, receivables contributed to this performance, with DPO up 38% and DSO down 6%. Inventory levels, however, were higher, with DIO up 4%.

In addition to the benefits realized through better terms and a strong focus on procurement and sourcing, payables results were boosted by a surge in levels of advertising spend.

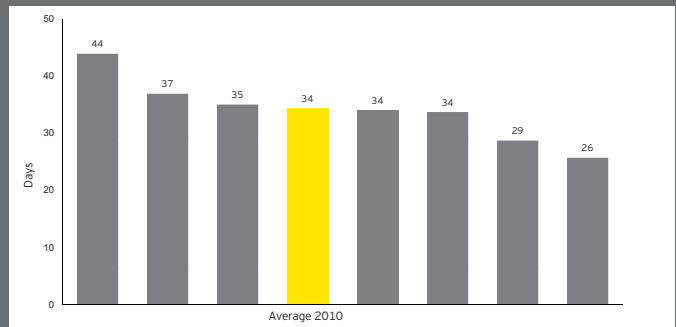
WC performance comparisons per HPC company

Table 15: C2C (based on sales)*



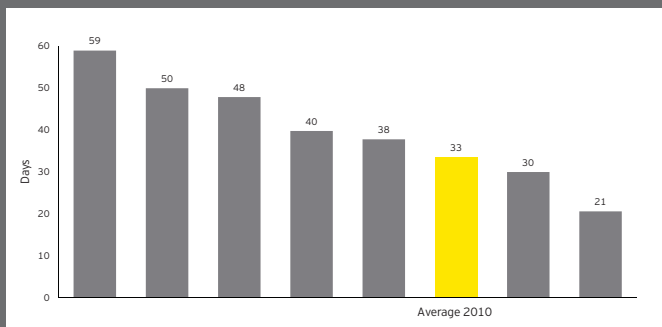
*Average is sales-weighted
Source: annual accounts 2010

Table 17: DIO (based on sales)*



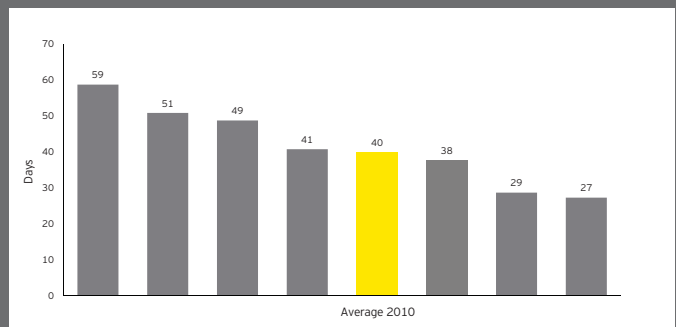
*Average is sales-weighted
Source: annual accounts 2010

Table 16: DSO (based on sales)*



*Average is sales-weighted
Source: annual accounts 2010

Table 18: DPO (based on sales)*



*Average is sales-weighted
Source: annual accounts 2010



Managing WC in emerging markets

The share of CP revenues from emerging markets is rising dramatically (from 23% of sales in 2002 to 40% in 2010 for brewing, from 21% to 30% for F&B, and from 27% to 38% for HPC). In fact, one of the world's household names in CP now derives over half of its revenue from emerging markets.

In terms of WC, this trend presents the industry with both challenge and opportunity. Each emerging market exhibits different characteristics and dynamics that drive WC, such as the level of concentration, the importance of local brands, varying manufacturing/packaging/distribution models, the levels of excise duties and local payment practices.

Growth there requires a continuing reassessment of WC management strategies to keep pace with rapidly evolving local market conditions and integration of acquisitions. This also means striking a delicate balance between manufacturing and supply chain cost structures and pricing strategies.

For example, in India, there are few major retailers. Instead of dealing with 5, 10 or 15 principal customers or distributors, CP companies must instead forge relationships with a vast range of intermediaries that can help reach upwards of 6-7 million sales outlets. Moreover, owing to taxes imposed by each local jurisdiction, CP companies cannot consolidate but instead must hold specific stocking inventory in each state.

The advantages for international CP companies can also be significant, although investment in infrastructure and WC may also be required. In particular, global firms have the ability to share innovation and learning across the enterprise. Though not all practices will be applicable in all markets, many ideas developed or identified in one country can be adapted or modified for another.

Another benefit of the CP industry's expansion into emerging markets is the smoothing seasonal effect on WC. For example, in brewing, cash tends to be consumed more during the first half of the year and then released in the second. With rising demand from emerging countries, seasonal patterns across CP segments are gradually changing.

Part III: Opportunities going forward

So much progress in spite of so many challenges deserves praise. But CP companies cannot afford to slip back into complacency. The nature of the challenges in the industry – globalization, consolidation, commodity risk, heightened competition – are ongoing and call for continuous vigilance, improvement and innovation in WC management.

The analysis provides ample evidence of sizable opportunities in the waiting. Variations in WC performance between segments and, indeed, between individual companies within each segment point to significant potential for improvement.

A high-level benchmarking analysis suggests that the leading 20 CP companies have between US\$16 billion and US\$33 billion unnecessarily captive in WC processes. In practice, experience across many WC projects in varying industries and geographies shows that a dedicated focus on WC management can deliver results at or above these levels.

The analysis compares the performance of the WC components of each company with that of the average (low estimate) and the upper quartile (high estimate) of its peer group within its region. For the 20 companies in question, this equates to between 2.6% and 5.3% of sales.

CP companies may identify further opportunities for improvement by examining the practices of leading class performers within and across industry's segments.

The spread of performance for the industry has remained almost unchanged since 2002.

The opportunity is distributed across the whole range of WC components, with half coming from payables and one-quarter each from receivables and inventory.

Table 19: WC cash opportunity per segment, 2010

	Cash opportunity					
	Value (US\$b)		% WC scope		% sales	
	Average	Upper quartile	Average	Upper quartile	Average	Upper quartile
Brewing	2.1	3.7	8%	15%	2.6%	4.6%
F&B	8.3	18.0	10%	22%	2.6%	5.6%
HPC	5.8	11.7	9%	18%	2.6%	5.2%
Total	16.3	33.4	9%	19%	2.6%	5.3%

Source: Ernst & Young analysis, based on publicly available financial statements



Pursuing greater focus and innovation

Faced with so many challenges and amid evidence that improvement is available, the CP industry must respond. Some of the principal initiatives and approaches that distinguish leading companies from the average include:

- ▶ **Focus on the details** In an industry where leaders are focusing more closely on WC basics, those who do not will likely lose ground. No doubt, many of the shifts in industry DSO/DPO relationships are the result of proactive moves by those on the forefront.

Paying attention to detail is critical. Often a procurement director will work hard to negotiate payment conditions with a major supplier, perhaps achieving 60-day terms, but in some cases giving away much of the benefit by agreeing large minimum order quantities. And then the business accounts payable department may continue to pay in 30 or 45 days, because the system has not been updated to reflect the director's work. In addition, while CP companies are often reticent to confront major retailers about contract compliance, today's conditions demand adherence to agreed terms.

Another area to explore is rebate arrangements with any given retailer. Today's point-of-sale technology provides retailers with timely and detailed data, which are often used to claim rebates through netting earlier than contractually allowed. At the same time, retailers may delay payment on a sizable portion of what is owed to the retailer. Certainly, there are almost as many rebate structures as there are product lines and retailers, and the CP industry would do well to take a closer look at how rebate payments are being handled.

- ▶ **Explore new financing models** An example is the credit facilities being created by certain retailers on behalf of suppliers. A retailer establishes a facility with a given bank. A supplier can then use a verified bill of sale to draw on its receivables. If the terms are 90 days, the supplier can wait the full interval for the full payment. But if it needs financing earlier, the bank discounts the receivables appropriately. Such factoring not only provides a supplier with more reliable and predictable cash flow, but also serves as an added source of financing for the retailer.
- ▶ **Pursue collaborative procurement** CP companies are teaming up with one another to consolidate procurement and logistics. One of the first such pairings, between two major beverage companies, is said to be delivering savings of around US\$1 billion per year. Such collaboration will of course require a relatively non-competing partner as well as great trust. But the model is already proving successful.

On a similar front, a range of industries, including CP, are beginning to see the emergence of "cloud" procurement. In this model, a single company consolidates the purchasing needs of a host of non-related buyers. A relatively new phenomenon, cloud procurement has the potential to become a powerful force in the marketplace.

- ▶ **Get closer to retailers** Greater WC benefits stem from closer collaboration with retailers. Leaders in this area take steps such as dispatching personnel to the very aisles of retailers with the goal of optimizing product placement and replenishment. Such a move, it is generally noted, provides benefits to both the retailer and the CP firm.

The most successful CP companies will be those that develop a privileged and collaborative relationship with key retailers. This means working together towards mutual objectives such as optimizing product assortment, coordinating promotional campaigns, ensuring cost-effective and on-time deliveries and adopting new technologies to share real-time information about demand.

- ▶ **Optimize inventories and production runs** With globalizing supply chains comes greater complexity but also greater opportunity for optimization. CP firms should take a hard look at manufacturing, supply and replenishment patterns to drive greater efficiency.

At the same time, the CP industry has long understood that the clearer its line of sight into demand, the more optimized its operations. To the extent this information is in turn shared with the supply chain at large, benefits to the broader value chain increase.

While certain companies in certain sector have made good progress, there is still much more to be gained from closer collaboration and information sharing with retailers. Of course, end retailers hold the needed data and may be hesitant to cooperate. But to the extent suppliers can position the benefits as a win/win scenario, the odds improve.

- ▶ **Re-engineer products** CP companies are re-engineering products to derive savings. Even a minor product innovation, for example, reducing its size, can pare materials, production, packaging, shipping and inventory costs. Similarly, many are simplifying their product footprints. By reducing the total number of stock keeping units (SKUs), suppliers can achieve greater scale and efficiency.
- ▶ **Identify further WC opportunities** CP companies should take advantage of the rapidly changing industry and market conditions not only to enhance their overall WC performance, but also to identify further opportunities for improvement by examining the practices of leading performers within their segments, but also within other CP segments and other industries.



Conclusion

The CP industry has made significant strides in improving WC management in the last eight years, including in the past year, 2010. Evidence shows that cash and WC management remain at the top of the agenda for leading CP businesses. Yet a combination of changing industry and market conditions and the after-effects of the global financial crisis means businesses face significant challenges in this area going forward. It is therefore critical that companies continuously adapt and improve WC management strategies, reflecting the changing environment as well as robustly championing the basics of operating WC management. And why would they? Because this remains the cheapest form of finance available.

CP companies are increasingly dependent on a few key retailers. Supply chains are becoming more global, complicated and vulnerable to disruptions. The proportion of sales coming from emerging markets is growing fast. Add to this an era of more volatile commodity prices – and that's merely a partial listing of today's issues.

But with change comes opportunity. Progress in WC has been significant, but variations in performance across segments and among companies within each segment, along with the analysis conducted for this report, point to significant opportunity for further improvement for most companies.

Getting it done will require management focus. But with so much value at stake and with competition in the CP industries intensifying, no one company can afford to overlook its opportunities to enhance WC management.



How Ernst & Young can help

To support companies in gaining greater control over their cash flows and addressing WC opportunities and challenges, Ernst & Young helps identify, evaluate and prioritize realizable improvements in WC derived from process improvements, elevated compliance levels or changes to commercial terms. We also help them implement the relevant metrics and identify these WC and cash flow improvements and realize the resulting benefits.

To help organizations make the transition to a cash-focused culture, we also help them implement and identify the relevant metrics and areas for improvement in cash flow forecasting practices. We can then assist in implementing processes to improve forecasting as well as frameworks to sustain improvements.

WC improvement initiatives are often self funding. In addition to increased levels of cash, significant cost benefits may also arise from process optimization, through potentially reduced transactional and operational costs, and from lower levels of bad and doubtful debts and inventory obsolescence.



Study methodology

This report is based on a review of the WC performance of the 20 largest branded CP companies (by sales) headquartered in the US and Europe and operating in the segments of brewing, food and beverage, and household and personal care.

The segments have been selected on the basis of common features and business issues, such as fast-moving products, prominent brands, global reach and scale. A further common feature is that each of the companies has sales in excess of US\$6 billion. While all our findings are based on publicly available data, the performance of individual companies is not disclosed.

The companies comprising the sample for this analysis include:

Brewing: Carlsberg, Heineken, Anheuser-Busch InBev and SABMiller

Food and beverage: Campbell, Coca-Cola, Danone, General Mills, Heinz, Kellogg's, Kraft Foods, Nestlé and PepsiCo

Household and personal care: Beiersdorf, Colgate, Kimberly-Clark, L'Oréal, Procter & Gamble, Reckitt Benckiser and Unilever



Glossary

- ▶ **DSO (days sales outstanding):** year-end trade receivables net of provisions, including excise duties and VAT and adding back securitized receivables, divided by full-year pro forma sales and multiplied by 365 (expressed as a number of days of sales, unless stated otherwise)
- ▶ **DIO (days inventory outstanding):** year-end inventories net of provisions, divided by full-year pro forma sales and multiplied by 365 (expressed as a number of days of sales, unless stated otherwise)
- ▶ **DPO (days payable outstanding):** year-end trade payables, including excise duties and VAT and adding back trade-accrued expenses, divided by full-year pro forma sales and multiplied by 365 (expressed as a number of days of sales, unless stated otherwise)
- ▶ **C2C (cash-to-cash):** equals DSO, plus DIO, minus DPO (expressed as a number of days of sales, unless stated otherwise)
- ▶ **Pro forma sales:** reported sales net of the amount of excise duties and VAT and adjusted for acquisitions and disposals when this information is available
- ▶ **COS:** cost of sales (including depreciation and amortization)



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